United Nations

A/CONF.198/10

International Conference on Financing for Development

Monterrey, Mexico
18-22 March 2002

Distr.: General
22 March 2002

Original: English

Agenda items 8, 9 and 10

Ministerial segment

Summit segment

Adoption of the Monterrey Consensus

Note verbale dated 22 March 2002 from the Permanent Mission of Oman to the United Nations addressed to the Secretary of the International Conference on Financing for Development

The Permanent Mission of the Sultanate of Oman to the United Nations presents its compliments to the Secretary of the International Conference on Financing for Development and has the honour to transmit herewith the text of the working paper of the Omani delegation (see annex), and further requests that the present note verbale and its annex be circulated as a document of the Conference.

02-30522 (E) 040402

Annex to the note verbale dated 22 March 2002 from the Permanent Mission of Oman to the United Nations addressed to the Secretary of the International Conference on Financing for Development

[Original: Arabic]

International Conference on Financing for Development

Paper of the Sultanate of Oman

Monterrey, Mexico, 18-22 March 2002

International Conference on Financing for Development

The Sultanate of Oman wholeheartedly supports this important conference, which comes at a time when the gap between the world's rich and poor has been growing wider day by day.

Oman is committed to trade liberalization as a cornerstone of its economic development strategy. As a member of the World Trade Organization, Oman has taken steps to ensure compliance with international standards in vital areas such as intellectual property rights. It is seeking to create a suitable investment environment in which economic partners and investors can be certain that commercial activity has the benefit of sound legislation and transparent procedures.

The constitutional law of the State therefore plays a fundamental role in guiding Oman's economic development, adopting the free market as its basic principle within a modern, long-term perspective and thus providing a solid guarantee of the State's commitment to free trade and support for private enterprise.

Oman's foreign investment law, moreover, inspires confidence and respect. The success of the country's first privatization operations, opportunities for new major privatizations and the achievements of joint ventures such as the new Salalah Port Project and the liquefied natural gas (LNG) project clearly show Oman's readiness for full participation in global economic partnership.

Of the many issues to be discussed at the Conference, Oman has chosen to highlight three in this paper:

1. Increased international investment flows and the broadening of the scope of international investment;

2. The opening of commercial markets to other countries and the guaranteed application of a fair trading system;

3. Improvement of regional and international financial structures and guarantees of fair representation of developing countries in global decision-making on economic and trade matters.

I. Increased international investment flows and the broadening of the scope of international investment

International Monetary Fund (IMF) estimates show that net private investment, including net direct investment, net securities and net other investments, both short- and long-term, including public and private loans, have declined sharply in developing countries, from approximately $224 billion in 1996 to $32.6 billion in 2000. In other words, in 2000 such investments amounted to only approximately 14.6 per cent of the 1996 level.

At the same time, the estimates show that official net flows dropped from $56.8 billion in 1997 to $4.8 billion in 2000. Indeed, IMF estimates indicate that private investments will increase to $56.5 billion and $106.2 billion in 2001 and 2002, respectively; yet these are still simply estimates. Moreover, they were prepared in the first half or 2001, and it is well known that the events of September 2001 had many adverse effects on the global economy. Consequently, we tend to have some reservations regarding those estimates.

It is a well-known fact that the substantial decline in investment flows to developing countries was a result of a series of financial crises occurring in many regions of the world that nearly brought the collapse of the entire international financial system. Here we shall not take up in detail the causes of those crises; however, numerous studies have shown that some of the causes of the crises involved internal factors, while others related to external factors. Thus the responsibility for them is shared. Inasmuch as the purpose of the Conference is to create a global partnership that will bring balanced, sustained growth of the economies of the developed and developing countries alike, the developed countries must play a greater role in assisting developing countries to create a suitable stable environment that will provide an incentive for a greater flow of international investment. The developed countries can play that role in two complementary ways:

1. By assisting developing countries in economic and financial structural reform;

2. By assisting in the transfer and local adaptation of technology.

Though structural reform of the economies of developing countries is fundamentally their own responsibility, developed countries can still play a positive role by encouraging non-inflationary growth of the world economy that does not lead to the exportation of inflation to developing countries, which rely basically on industrial countries in the importation of the bulk of their production inputs and capital goods. Indeed, whenever the prices of such imported goods are stable, developing countries are able to continue their development efforts more efficiently and at lower cost. Developing countries can also be helped through the reform of the international financial system, which will in turn help to reduce the shocks sustained by their economies and negative impacts on capital flows.

Many studies have shown that the financial crises that beset the world during the second half of the 1990s were due in large measure to defects in the world financial system. Major external shocks suffered by developing countries, whose economies are weak and delicate compared to those of advanced countries, go hand in hand, as happened in Asia in 1997, with large-scale capital flights that violently shake their economies, thwarting their efforts towards structural reform in the

economic and financial spheres and hampering the influx of investments, thus creating an economic vicious circle.

Numerous studies have also shown that productivity and efficiency, two major factors in attracting investment, increase whenever a country has skilled labour, well-developed infrastructures and advanced technology for increasing the yield on capital. It is well known that the growing technology gap between developing and developed countries is one of the fundamental factors underlying the backwardness from which underdeveloped countries suffer. Consequently, the creation of an attractive environment for foreign investment depends to a large extent on technical development. It is therefore vital to encourage developed countries to remove the restrictions, especially those of a technical and legal order, imposed on developing countries in respect of the importation of appropriate technology, so as to create a more favourable climate for solving the problems of technology import and adaptation.

Oman urges developed countries to promote the flow of foreign direct investment to developing countries. In this regard, a study on sources of foreign direct investment for developing countries which appeared in the June 2001 issue of *Finance and Development*, a magazine published by IMF and the World Bank, stated that in 58 developing countries, every dollar of foreign direct investment increased local investment by approximately 80 cents, i.e., 80 per cent of the foreign investment, as compared with approximately 50 per cent for loans and 12 per cent for portfolio investments. The same study indicated that in a sampling of 18 emerging-market countries those ratios were 90, 40 and 12 per cent, respectively. It should perhaps be mentioned that foreign direct investments are characterized by considerable stability as compared with other types, especially during times of major financial crises and shocks. Throughout the ruinous crisis of the second half of the 1990s, net total foreign direct investments maintained their levels in developing countries, rising from $120 billion in 1996 to $145 billion in 1999 and stabilizing at $144 billion in 2000, whereas flows connected with portfolios and loans declined from $104 billion in 1996 to a negative net flow of $25 billion in 1997, rising again to a positive net flow of $120 billion in 2000. Thus, perhaps one of the important lessons to be learned by emerging markets from major financial crises is that in their foreign investment policies, countries should focus on direct investment so as not to expose their systems to major shocks resulting from the sudden departure of other types of investments. If to this one adds that foreign direct investment contributes to greater technology transfer, the opening-up of foreign markets, the training of labour, the creation of job opportunities and greater competitiveness of production inputs of domestic origin, it becomes clear that concentrating on that option is vital. However, providing incentives to foreign direct investment requires preparing the institutional, legal and other infrastructures that draw foreign investment. Such requirements on the part of States desirous of attracting investment have become clear and need no detailed discussion. They can be summed up as reforms to improve overall financial, monetary and exchange-rate policy and structural reforms relating to investment in human resources, capacity-building and infrastructural improvement in areas such as roads, ports, energy and communications, the development of the financial system and incentives involving various exemptions.

II. The opening of commercial markets to other countries and the application of a fair trading system

Despite the relative success achieved by the fourth Conference, held in Doha at the end of last year, developing countries have apparently not, since the World Trade Organization (WTO) agreements began to be implemented in 1994, observed any improvement in their situation, notwithstanding the trade liberalization connected with those agreements. Although the agreements call for special and preferential treatment for developing countries and free access of their goods to the markets of the advanced countries, especially with regard to agricultural products, textiles and clothing, those movements have not taken place. Many advanced countries still place many obstacles in the way of exports from developing countries, be it in the form of protectionist measures that go against the WTO rules, the imposition of unilateral trade obstacles that serve their own interests or arbitrary measures against the flow of exports on the pretext of protection of the environment or measures relating to health. In addition, they create technical barriers and resort to dumping, which is very harmful to the interests of developing nations, especially when it involves good-quality, cheap goods with which equivalent local goods are unable to compete.

Almost seven years after the entry into force of the WTO agreements, developing countries are still far from reaping the benefits expected from accession, especially those related to the opening-up of markets for their exports, the flow of investments into them and the transfer and adaptation of technology.

Oman stresses that it is essential to respect and implement the decisions of the Fourth Ministerial Conference of WTO, held in Doha last November, and maintains its position concerning the need for viable solutions, satisfactory to all parties, on the problems of implementation that have marred the already existing agreements before one proceeds to new matters proposed by the advanced countries, such as investment, competition policy, government purchases, intellectual property rights, etc.

WTO must also have the will to make trade a factor promoting and encouraging economic development and a fundamental source of development financing. This means enhancing transparency, integration and representation within the organization so as to guarantee the full participation of all developing countries in negotiations at all stages and more equitable representation of those countries at the organization's secretariat level. In this way WTO will become a forum serving the interests of developed and developing nations alike.

The Conference must therefore focus on the adoption of resolutions and recommendations aimed specifically at providing financial and technical support to enhance the export capacities of developing countries. The creation of a trading system that serves the development and growth needs of all and promotes integration among the world's economies requires not only the removal of the trade barriers that stand in the way of exports from developing countries but also the development of trade agreements, systems and laws that serve the interests of developing nations as well. Only then can one speak of a multilateral international trading system based on clear principles and transparency that takes into account the interests of all without discrimination, thus playing an effective role in promoting development in all the countries of the world.

III. Improvement of regional and international financial structures and guarantees of fair representation of developing countries in global decision-making on economic and trade matters

The rapid growth of globalization and trade liberalization has gone hand in hand with an acceleration of steps towards integrating the world's economies. Globalization has come to govern the world's economy, the global distribution of labour and the integration of all economies into the global economy. These developments have increased the importance of the export sector, especially in developing and emerging-market countries, whose economies have become subject to sharp foreign competition. This has been accompanied by an enormous increase in the freedom of capital movement, yet the 1997 Asian crisis, among others, involved successive repercussions that affected the entire world economic situation. The "open door", liberalization and growing globalization played a clear role in the extensive spread of the crisis. One fundamental lesson derived from the Asian crisis and its repercussions was that the volume of private financial flows became so enormous that it surpassed by far the financial resources available to Governments or international or regional financial institutions. Thus, such resources were insufficient for any required intervention aimed at regulating or controlling the action of speculators. Another lesson learned from that crisis was that rapid growth and the world-wide linking of private capital markets made various countries more vulnerable to changes than market forecasts indicated. Moreover, the effects of a decline in market forecasts in one country might rapidly spread to other countries, causing a crisis in the entire international financial system. That is precisely what happened when the Asian crisis spread like wildfire to Russia and Brazil.

Those events have given rise to increasing fear that as a result of the continual development of financial markets, more and bigger countries might be affected by future crises, which will thus be more difficult to control. This has led to the conviction that radical reforms of the current financial structure are essential. Questions have been raised about the extent to which that system can accommodate such development and about the need to reform the system, making it more crisis-proof.

The areas on which the discussions and deliberations on the reform of the system have focussed include the following:

1. Standards, transparency and financial supervision;

2. Emergency financing through the establishment of an emergency fund tasked with offering financial assistance to countries suffering from capital account payment difficulties. Oman feels it would be best to create such a fund within the framework of IMF;

3. Reinforcement of the international system through stronger capitalization and liquidity in the banking sector and the correction of shortcomings in the basic underpinnings that ensure the safety of the financial system of any country, consisting primarily in the rules of prudence and solvency, close supervision, internal controls and professional codes of conduct for banks and other financial institutions;

4. Issues relating to capital accounts, with a view to containing or preventing intense capital movements, so as to avoid violent disturbances in the economy;

5. Greater participation of the private sector in financial crisis prevention and treatment, in view of the increased financial activity of the private sector in the wake of deregulation, privatization and open-door policies. This would entail requiring private-sector investors to bear part of the burden of financing the financial reform programme, especially if Governments announce clearly that they will not protect the private sector from losses resulting from crises, which will make those investors more circumspect in making their financial and investment decisions.

A number of mechanisms have been proposed for achieving these reforms, such as those relating to statement publication standards; transparency; monitoring; the conditions governing financial disclosure; the idea of establishing a World Bank/IMF liaison committee to assess the international financial sector and provide advice to States suffering from difficulties in their financial sector through technical programmes established for that purpose; the establishment of a certain number of controls and restrictions on international capital flows as a tool for crisis prevention and management; and the insertion, in international financial contracts, of a clause giving a country facing a monetary or financial crisis the right to declare unilaterally the freezing or deferment of its debt payments.

There is some fear, however, that such mechanisms might give rise to some reluctance on the part of banks and financial institutions to lend to developing countries, thus shrinking the possibilities for those countries to enter international financial markets and obtain needed financing.

The new international financial system must comprise multiple frameworks for the management of international liquidity, the harmonization of standards, transparency, financial supervision, the formulation and following of financial and macroeconomic policies at the national and international levels, the strengthening of regional and international financial institutions, emergency financing mechanisms for crisis prevention and management and the finding of viable solutions to the problem of the existing debts of developing countries. Inasmuch as such reforms are of concern to both developed and developing countries, the international community must prepare a common agenda for the anticipated reform, for broad discussion at all levels an in all countries. On the basis of the discussions and the proposals that emerge from them preparations should be made for an international conference patterned after the 1944 Bretton Woods Conference, which laid the foundations for the present financial system. All States should take part in the conference, with appropriate levels of representation.

Optimally, such an international conference and all stages of the related negotiations should be aimed at establishing a new international financial system within the framework of the United Nations, as the common meeting place and the forum to which all the countries of the world belong. This proposal will provide a strong impetus towards guaranteeing the equitable representation of developing countries in international decision-making on international economic and trade matters and consequently help to overcome the problems stemming from the fact that the first negotiations of the Uruguay Round and the establishment of the World Trade Organization were confined to the developed countries, imposing heavy burdens and considerable expenses on developing countries when they attempted to defend their interests in the subsequent phases of the negotiations.